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Can You Have One without the Other? Transformation towards Market Economy and Democracy in Asia and Oceania

Strategic Insights, Volume IV, Issue 12 (December 2005)

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Introduction



In terms of geographical size, population and gross regional product, Asia and Oceania is the largest and most heterogeneous of the seven regions examined in the *Bertelsmann Transformation Index*. Like other regions of the world, Asia and Oceania has been shaped during the past two decades by a previously unknown dynamic in the transition to democracy. Since the beginning of the "third wave of democratization," the number of democracies in the region has

almost tripled. Furthermore, the region is one of the most impressive examples for late industrialization and economic modernization.

Despite these successes, the trends of transformation towards democracy and market economy in the region remained ambivalent during the review period of the BTI 2006. Democratization in the region remains a fragile process. Unlike in Central and Eastern Europe, there are no normative transformation goals that unite all countries in South, Southeast and East Asia. In many nations, the status of democracy is low; in a number of countries, democracy broke down after a short while. Currently, half of all area countries are governed by authoritarian regimes.

Although most governments in Asia follow a strategy of market economic reforms, the levels of their accomplishments vary widely. During the review period of the BTI 2006, the overall trend in the region was not one towards democracy *and* market economy but one of a pronounced decoupling of both transformations. This report provides an overview on these processes in the 20 countries in the region. It is based on the results of the Bertelsmann Transformation Index (BTI) and the underlying country assessments which analyze each individual country in detail.

Democratic Development

In terms of democratic development, the regional divide that characterized the region in the previous period of the BTI 2003 (1998-2003) continued and has even gained momentum in the past three years. As the following table demonstrates, at present, five groups of political regimes can be distinguished:

Table 1: Political Regimes in Asia and Oceania

Democracies	Defective Democracies	Defective Democracies with Strong Defects	Moderate Autocracies	Autocracies
Taiwan	India	Sri Lanka	Singapore	Nepal
South Korea	Indonesia	Papua NG	Malaysia	Pakistan
	Philippines	Afghanistan	Cambodia	Vietnam
	Thailand			China
	Bangladesh			Laos
				Myanmar
				North Korea

Aside from South Korea and Taiwan, ongoing insurgencies, weak state institutions, ineffective public services, porous rule of law and high levels of corruption within public administrations are fundamental problems of transformation toward liberal democracy in Asia and Oceania. However, even in these two countries, the political institutions and the political party system do not fulfill all criteria of a consolidated democracy.

Compared with the BTI 2003, four countries experienced significant progress or erosion of the democratic quality of their polities. On the one hand, in Papua New Guinea, the democracy's problems with an inefficient, corrupt civil service, eroding law and order, poor discipline in the army and police, and poor governance have deepened. There is almost universal cynicism towards political leaders who are seen as corrupt and self-serving. Most analysts see Papua New Guinea as an example of a weak state where the state is unable to implement even the most basic policy. In Thailand, there is a pronounced authoritarian shift in the character of Thai politics since the advent of the Thaksin government in 2001. In Nepal, democracy, which had existed since 1990, fell into complete disarray, when King Gyanendra ended the country's 15-year experiment with democracy and took power for himself in a royal coup d'etat on 4 October 2002 and, again, on February 1, 2005.

On the other hand, democratization in Afghanistan made progress during the last three years. The crucial steps, of the Bonn Peace Talks (December 2001) which envisaged a democratically elected government and a democratic constitution for the country (i.e., Presidential Elections 2004, Parliamentary Elections 2005) could be realized without major setbacks. Nevertheless, it will take decades and many setbacks to establish sound political institutions which are capable enough for a self-supporting democracy in Afghanistan. The realization of this goal depends very much on the longstanding military, political and economic commitment of the international community. Weak stateness constitutes a particularly harsh constraint for political and economic development in the country.

To a lesser extent, this is also the case in many other countries in the region. Only in South Korea, Singapore and Taiwan, the state monopoly on the use of force—including an efficient and professional bureaucracy—is effectively established. Aside from significant deficits of the efficiency of the public administration and under harsh authoritarian conditions, the latter is also true for North Korea. In many other area countries, contestation of the state monopoly on the use of force, the lack of effective stateness, and the unfinished task of nation-building overlap in such a way that the authority of central governments is challenged by non-state armed groups. However, frequency, intensity, and tendency of these features vary considerably, with Thailand and Afghanistan being the countries that experienced the most significant changes in recent years. In Thailand, tensions between Buddhist Thais and southern Muslims have increased dramatically since 2004. In Afghanistan, the leeway of the government has been improving and the position of warlords is weakening since 2003.

Only in about half the region's countries can the citizenry choose the government in free elections. Aside from South Korea and Taiwan, elections in most democracies in the region are to different extent characterized by irregularities. In addition, freedom of association, opinion and the press are restricted in most "defective" democracies. The elections in Singapore and Malaysia are only "semi-competitive". Restrictions on political rights and civil liberties are particularly pronounced in Cambodia and Pakistan. During the review period of the BTI 2006, general elections have further solidified the position of the ruling powers in these four countries. There are no opportunities for democratic participation in the political process for the citizenry in Vietnam, North Korea, Laos, Myanmar and China (except for village elections).

The shortcomings and gains concerning political participation and stateness correspond to a certain degree with the status of the rule of law in the region. In North Korea, China, Laos, Myanmar and Vietnam there is neither separation of powers with checks and balances nor an independent judiciary; civil rights are severely regulated or are nonexistent. Conversely, the rule of law and civil liberties are the best guaranteed in the advanced democracies such as South Korea and Taiwan. In the defective democracies in Asia, the liberal side of democracy (rule of law, constitutionalism, and civil liberties) is constantly weaker than the electoral facet of democracy. Singapore and Malaysia fall in between both categories. They are the only states in the region which score better in the dimension of rule of law than in the participatory dimension of democracy, among other things because of successful anti-corruption policies.

Subject to the aforementioned reservations democratic institutions are stable in most democracies. In South Korea, gridlock in the years 2003 and 2004 mostly resulted from a lack of personal leadership quality of the newly elected president and, simultaneously, the unwillingness of the major opposition party to accept its second consecutive defeat at the polls. The impeachment trial against President Roh literally paralyzed the government and brought policy-making to a standstill. The trial, however, turned out to be a victory for liberal democracy when the Constitutional Court, according to the constitution, ruled that there was no constitutional point to impeach the sitting president. For the first time in the history of Korean democracy, a major conflict between the two branches of government was solved by a decision of the third estate—and all relevant political actors accepted the outcome. Following the March 2004 presidential elections, Taiwan's democracy was high-jacked by a legal brawl on the ballot's outcome and the investigation of an alleged assassination attempt on President Chen on the eve of the presidential election. However, the political institutions proved to be strong enough to overcome the turmoil of the election aftermath. Recent constitutional amendments in Indonesia have improved the autonomy of core institutions of the democratic order such as parliament and Supreme Court, although the system of governance is still not free of frictions between institutions, particularly in relations between the executive and legislative. In Thailand, the positive implication of the ruling party's legislative superiority and the Prime Minister's consolidated position as hegemonic political leader is stable government and a more efficient cooperation between the legislature and the executive. However, this is not necessarily good news for Thai democracy. Stability of government and legislative majority has been achieved at the expense of inclusiveness of the political system, transparency, and accountability of the political process; simultaneously, the opposition is more or less side-lined and excluded from political decision-making.

In most democracies, problems with institutional efficiency are associated with the chronic problem of [ambiguous](#) or competing majorities in parliament and cabinet and the lack of stable party organizations. Political party systems are neither well-structured and robust nor fundamental underpinnings of the democratic polity. Political party development rather is one of the greatest shortcomings of many democratic transitions in the region. With the exception of India and Taiwan, most countries are stuck in one of two unpromising scenarios: either they have several well-entrenched political parties that have been around a long time, operate through long-established patronage networks, and have little interest in reform, or political life is dominated by several recently formed parties that are essentially personalistic power structures with little connection to the citizenry, few internal democratic procedures, and little coherent ideology beyond the immediate views of the party leaders. Party systems in new democracies in Asia emerge around political rather than economic cleavages; where parties have adopted forms and issues of western political parties, they often are lacking any political meaning or serve only as means to mobilize public support but do not provide an ideological core around which a party can rotate.

Civil society organizations and other form of civic self-organization of society manage to compensate only partially for the weaknesses of the party systems and to contribute to the diffusion of democratic values as accumulators of social capital or by developing civic culture. Only in South Korea, Taiwan and India, democracy is accepted as the only game in town by all relevant political elites. Public opinion surveys and comparative studies on political attitudes in several Asian countries suggest that only in these countries democracy seems to develop towards consolidation on the attitudinal level. In all other democracies, there is considerable support for democracy in general, but economic prosperity tends to trump concerns about greater political freedoms and rights.

Economic Development

Even more than politically, states in the region are drifting farther apart socio-economically. Except in Laos, North Korea and Myanmar, governments in the region acknowledge the goal of a market economy in principle. Yet, while (South)- East Asia still is one of the economically most

dynamic regions in the world, large differences of the levels of social and economic development remain. As [Table 2](#) illustrates, the differences in development are larger in this region than in any other. Developed 'first world' countries such as Singapore, South Korea and Taiwan are located in [immediate vicinity](#) to least developed countries such as North Korea, Cambodia, Laos and Myanmar.

Table 2: Basic Economic Indicators

	GDP per capita 1	GDP Growth 2	HDI (2002) 3	Gini-Coefficient 3	Poverty Rate 4
Afghanistan	822	...	0.346	35.5	60—80
Bangladesh	1,700	5.34	0.509	31.8	82.8
Cambodia	2,060	4.36	0.568	45.0	77.7
China	4,580	8.18	0.745	44.7	46.7
Korea (North)	...	...	...	...	...
Korea (South)	16,950	4.78	0.888	35.2	< 2.0
India	2,670	6.42	0.595	32.5	79.9
Indonesia	3,230	4.05	0.692	34.3	52.4
Laos	1,720	5.96	0.534	37.0	73.2
Malaysia	9,120	4.20	0.793	44.0	9.3
Myanmar	1,027	...	0.551	...	...
Nepal	1,370	3.16	0.504	36.7	82.5
Pakistan	1,940	4.40	0.497	33.0	65.6
Papua NG	2,270	0.68	0.542	48.7	...
Philippines	4,170	4.38	0.753	46.1	46.4
Singapore	24,040	2.95	0.902	42.5	...
Sri Lanka	3,570	3.70	0.740	34.4	45.4
Taiwan	23,400	2.94	0.902	32.6	0.8 5
Thailand	7,010	5.52	0.768	43.2	32.5
Vietnam	2,300	6.88	0.691	37.6	63.7

1 - In 2002 US\$ (PPP). 2 - Average GDP growth rate, 2001-2005; 2004 and 2005 are projections. 3 - Latest available year, 1998-2002. 4 - Percentage of population living below \$2 per day poverty line, 1990-2002, latest available year. 5 - Percentage of "low income population" (2003). Sources: UNDP, Human Development Report 2004, ADB, Asian Development Outlook 2004; ADB, Key Indicators of Developing Asian and Pacific Countries 2004; country reports.

Based on the criteria and findings of the BTI 2006, South Korea, Singapore and Taiwan stand out in the region as developed market economies on a high level of social and economic development with a well developed institutional 'hardware' for a competitive market-based economy in place.

Table 3: Status of Transformation towards Market Economy

Developed Market Economy	Functioning Market Economy	Deficient Market Economy	Rudimentary or No Market Economic System	
Taiwan	Thailand	Bangladesh	Afghanistan	Myanmar
South Korea	Sri Lanka	China	Cambodia	North Korea
Singapore	Malaysia	India	Laos	
		Indonesia	Papua NG	
		Nepal		
		Pakistan		
		Philippines		
		Vietnam		

Sri Lanka, Malaysia and Thailand lag behind the first group—in some aspects far behind. Their institutional framework of market economy is functioning, however, and the level of performance on the economic criteria has improved in the past three years. In the third group of countries, the institutional hardware of a market economic system is emerging, only partially effective or otherwise transforming. Within this group, the levels of institutional transformation, levels of socio-economic development and trends of transformation differ from each other considerably. In China, Vietnam, India and Pakistan, market economic reforms were developed a step further during the past three years and have contributed to significant, in some countries enormous, economic gains; in Indonesia, Bangladesh and Philippines, reform measures were less decisive, less significant or (Philippines) basically status quo preserving.

The last position in the regional ranking is occupied by countries, whose economic order exhibits enormous institutional deficits and whose economic performance and level of social development lie significantly behind the other groups: Afghanistan, Laos, Cambodia, North Korea, Myanmar, Nepal and Papua New Guinea. Especially North Korea and Myanmar are edging toward free markets in an uneven and inept manner and have a long way to go; particularly the ruling junta in Rangoon lacks capability to steer the country's social and economic development and the political will to initiate development.

To some extent, Afghanistan is a deviant case within the region. Under the Taliban, there were no economic policies in the strict sense and most of the economy was informal. The government of President Hamid Karzai has the political will for institutional and developmental reforms; however, it lacks the economic and political resources to develop and to implement a coherent strategy for national development. Outside of its immediate sphere of control the government's influence on the development of prices; the stability of exchange rates; economic exchange; and the guarantee of property rights is very limited.

Welfare regimes and core programs of the modern welfare state to compensate the social fallout and negative side-effects of market economies are underdeveloped in most area countries. Relatively low public expenditure on health, social security, education, housing and personal social services shift the burden of providing social security to the family, the community and

charitable organizations. Levels of private spending for education and health are high and the extended nuclear family provides income security and borne the main burden of support for the elderly, unemployed and otherwise economically marginalized. Consequently, mechanisms of social compensation of market failures and the access to life chances depend on the market and the extent to which an individual is embedded into strong family and kinship ties. In the (former) socialist countries such as China and Vietnam, retrenchment of the once universal public safety net continues.

The differences between governments in setting fiscal priorities are reflected in intraregional discrepancies in the access to and quality of tertiary education and the quality of the educational system and national capacities for research and development. Singapore, Taiwan and South Korea all have a well-developed and competitive educational system. Thailand has just started a comprehensive reform of its inefficient system of public education. Differences in the quality of the education systems are also manifest in the applied sciences. Only Singapore, Taiwan and South Korea spend more than two percent of their GNP on research and development, while R&D spending in all other countries is either significantly lower or negligible. Similarly significant are the differences in the number of scholars and engineers conducting R&D and the number of student enrollments in natural and engineering sciences.

Tab.4: Spendings on R&D, Health and Education

	Research & Development (R&D)		Public Expenditure 3	
	Researchers 1	Expenditure on R&D 2	Health	Education
Bangladesh	...	...	0.9	2.4
Cambodia	...	...	0.9	1.8
China	633	1.23	...	2.1
Korea (South)	2,979	2.91	...	4.2
India	157	0.85	0.3	4.1
Indonesia	130	...	0.4	1.2
Laos	...	...	1.0	2.8
Malaysia	294	0.69	2.3	8.1
Myanmar	...	...	0.2	1.3
Nepal	62	0.67	0.9	3.4
Pakistan	88	0.27	...	1.8
Papua NG	...	...	4.1	2.3
Philippines	...	...	0.3	3.1
Singapore	4,352	2.19	1.0	4.0
Sri Lanka	197	0.18	1.6	2.2
Taiwan	...	2.20	0.2	2.4
Thailand	289	0.24	1.0	4.6
Vietnam	274	...	0.8	...

1 - Researchers in R&D per 1,000,000 population, 2002; 2 - Percentage of GDP, 2002; 3 - Percentage of GDP, 2000-2003; latest available year; Source: UNESCO Institute for Statistics, [Statistics on Research and Development](#), DGBAS, [Statistical Yearbook of the Republic of China 2003](#), ADB, [Asian Development Outlook 2004](#).

Transformation Management

Between 2003 and 2005 most area countries have neither experienced strong progress nor dramatic setbacks in the transformation towards democracy and market economy. However, the trends and tendencies of development differ considerably. Afghanistan joined the club of electoral democracies; Indonesia has strengthened its electoral democracy by introducing constitutional reforms and the conduct of competitive elections for the second time in 2004; in South Korea, the constitutional crisis of 2003/4 has strengthened constitutionalism and horizontal accountability. On the other hand, to a different extent Bangladesh, Pakistan, Thailand and Nepal experienced the erosion of democratic quality. In Bangladesh, law and order, public security and the rule of law is threatened by the collusion of organized crime and politics and the activities of militant Islamist organizations. In Pakistan, the ruling generals do not show any will to soften their grip on power. In Thailand, deepening unrest in the south contributes to the erosion of democratic standards; and in Nepal, electoral democracy has finally collapsed in February 2005. In terms of economic transformation, there remains a wide gap between the highly developed countries such as Singapore, Taiwan and South Korea and the least developed economies in Southeast and South Asia. However, some economies such as China, India and Thailand, but also Vietnam and, to a lesser extent some other countries, have achieved significant or even impressive gains of economic growth, social development or institutional reforms.

Comparing the BTI scores given for transformation management illustrates the high degree of heterogeneity in the region. Concerning the quality of the political management, the area governments can be grouped into five management categories:

Table 5: Quality of Management

Successful Management	Successful Management with Weaknesses	Management with Moderate Success	Management With Little Success	Failed or non-existing management
South Korea	India	Afghanistan	Cambodia	Myanmar
Taiwan	Malaysia	Bangladesh	Laos	North Korea
	Singapur	China	Papua NG	
		Indonesia		
		Nepal		
		Pakistan		
		Philippines		
		Sri Lanka		

		Thailand		
		Vietnam		

South Korea and Taiwan are at the top of the management ranking. Even though political decision-makers in both countries followed a strategy of political and economic reforms that is clearly committed to democracy and socially responsible market economy, it was hampered by weak political leadership and the choice of confrontational tactics at some points of the review period. Furthermore, opposition forces, civil society groups and, sometimes, the ruling camp as well have placed short term interests of office-seeking or ideological principles above a strategy of pursuing long-term goals of political and economic transformation.

A second group consists of Singapore, Malaysia and India. The management of political and economic transformation in the two Southeast Asian nations was successful in economic terms; in political terms, however, it was clearly aimed at preserving the semi-autocratic status quo. India, one of the oldest but also most persistent “defective” democracies in Asia, was categorized in this second highest management category, too, because of the implementation of far-reaching market economic reforms in recent years.

The largest group is formed by countries with a mixed quality of transformation management: Bangladesh, China, Indonesia, Pakistan, the Philippines and Vietnam, but also Afghanistan, Thailand and Sri Lanka whose ranking has either improved (Afghanistan) or worsened (Thailand, Sri Lanka).

The fourth category is formed by Cambodia, Laos, Papua New Guinea and Nepal—countries, whose political leadership demonstrated significant shortcomings in transformation management in almost all criteria. Especially in Nepal, the ruling elite’s learning curve is flat and the political will for consensus-building and reconciliation is weak. In Cambodia and Papua NG, management is of particularly low quality in terms of effective use of available resources and steering capabilities. However, the quality of political management in these countries is still higher than in Myanmar and North Korea, two prime examples for the devastating consequences of a country’s leadership management failures in terms of improving human security and the quality of life for its own population.

General points of convergence of high or low quality management in the region are two management criteria developed in the BTI 2006: resource efficiency and consensus-building. In many countries, corruption and waste of public funds are two of the biggest obstacles to economic development. Governments often fail to make efficient use of already scarce financial and human resources. The state’s extractive capacity in many countries is underdeveloped. Public funds are often distributed according to political and patronage considerations, and budget processes lack transparency. In many cases, the armed forces consume a disproportionately large share of the national budget. Budget deficits and public debts sometimes reach critical proportions. Also, less developed countries such as Cambodia, Laos, Myanmar or Papua New Guinea often simply do not have sufficient numbers of well-trained civil servants and neither the technical know how nor the professional standards necessary for an efficient public administration.

With the exception of Singapore, corruption remains a core element of the administrative and political culture in almost all societies. In Singapore, government officials are recruited and promoted strictly on merit and civil servants are paid above-average salaries. While countries such as South Korea, Taiwan and Malaysia do well in regional comparison, corruption levels are above average in interregional evaluations. Data from Transparency International and other institutions suggest that corruption is particularly virulent in Bangladesh, Indonesia and Vietnam.

The steering capability of governments is also affected by institutional settings and constitutional constraints. However, a regional comparison demonstrates that institutional constraints on the capability of governments to decide and implement policies are relatively weak in most countries. Institutional mechanisms of power dispersion and checks and balances are the strongest in India, the Philippines and Afghanistan. In other countries, Unitarianism and administrative centralism, unicameral systems or asymmetric bicameralism, the lack of direct democracy and weak judicial review offer governments considerable opportunities to decide policies unilaterally and to implement these policies without further delay.

Table 6: Institutional Constraints of Executive Decision-Making Authority

	Type of Government	Degree of Decentralization	BiCameralism	Referenda 2	Judicial Review
Afghanistan	Unitary	High	Symmetric	No	Yes
Bangladesh	Unitary	Low	Unicameral	No	Yes
Kambodscha	Unitary	Low	Asymmetric	No	No
China	Unitary	Low 1	Unicameral	No	No
Korea Nord	Unitary	Low 1	Unicameral	No	No
Korea Süd	Unitary	Medium	Unicameral	No	Yes
Indien	Federal	High	Asymmetric	yes	Yes
Indonesien	Unitary	Medium	Unicameral	No	Yes
Laos	Unitary	Low 1	Unicameral	No	No
Malaysia	Federal	Low	Unicameral	No	No
Myanmar	Unitary	Low 1	Unicameral	No	No
Nepal	Unitary	Low	Unicameral	No	No
Pakistan	Federal	Medium	Unicameral	Yes	Yes
Papua NG	Unitary	High	Unicameral	No	Yes
Philippinen	Unitary	Medium	Symmetric	No	Yes
Singapur	Unitary	Low	Unicameral	No	No
Sri Lanka	Unitary	Medium	Unicameral	No	Yes
Taiwan	Unitary	Low	Unicameral	No	Yes
Thailand	Unitary	Low	Asymmetric	No	Yes
Vietnam	Unitary	Low 1	Unicameral	No	No

1 - Real steering capability of local authorities varies; 2 - Evaluation based on the question if referenda are frequent and/or take place in important policy matters.

Of course in authoritarian regimes, the de facto degree of concentration of political power and the shifting relations among the ruling elites are much more relevant for the steering capabilities of governments than the legality of constitutional constraints. Furthermore, steering capabilities and [assertiveness](#) of regional or local authorities vary considerably even in unitary systems because of self-dynamic processes of decentralization such as in Vietnam and China or weakened stateness, for example in Pakistan and Indonesia.

In addition, the steering capability of democratic governments (and, to a lesser degree, of the political leadership in moderate autocracies) is also subject to some political factors which are not relevant in closed autocracies or one-party states: the system of governance (parliamentary, semi-presidential or presidential government); the composition of cabinets (single party cabinets vs. coalition cabinets), the effective number of political parties in parliament and the degree of institutionalization of party systems.

Table 7: Determinants of Steering Capability of National Governments on the Level of Party System and Cabinet (May 2005)

<i>Land</i>	<i>System of Governance</i>	<i>Type of Cabinet</i>	<i>Percentage of Seats In Parliament of the Party of Head of Government¹</i>	<i>Electoral Volatility²</i>	<i>Effective Number of Political Parties³</i>
Afghanistan	Presidential	Multiparty cabinet	-	-	-
Bangladesh	Parliamentary	Four-parties coalition	64.2	10.1	1.8
Korea (Süd)	Presidential-parliamentarism	One-party cabinet	50.8	48.5	2.3
Indien	Parliamentary	Multiparty cabinet	32.1	3.4	4.8
Indonesien	Presidential	Multiparty coalition	7.4	23.0	7.1
Papua NG	Parliamentary	Multiparty coalition	17.4	15.6	19.3 5
Philippinen	Presidential	Multiparty cabinet	44.0	...	3.5
Sri Lanka	Presidential-parliamentarism	Multiparty cabinet	46.6	3.5	2.8
Taiwan	Presidential-parliamentarism	One-party cabinet	39.0	10.8	3.3
Thailand	Parliamentary	One-party cabinet	75.2	15.1	1.6
Kambodscha	Parliamentary	Two-party coalition	59.3	12.2	2.3
Malaysia	Parliamentary	Multiparty-coalition	90.8	27.0	1.2
Singapur	Parliamentary	One-party cabinet	97.6	17.4	1.04

Pakistan	Parliamentary	Three-party coalition	36.8 9	42.6	4.3
Nepal	Parliamentary	-	-	-	-
Vietnam	Socialist One-Party System				
China	Socialist One-Party System				
Korea Nord	Socialist One-Party System				
Laos	Socialist One-Party System				
Myanmar	Military Junta				

1 - Latest election; 2 - Last two elections; 3 - Latest election. Source: Author's calculation based on data from country reports.

For example, the steering performance of many democratic governments is hampered by a lack of internal cohesion of fragmented multiparty coalitions or (in presidential systems) competing party majorities in parliament and executive which are blocking each other. Extreme examples are Indonesia and Papua New Guinea where high fragmentation of parliaments demands the formation of heterogeneous multiparty coalitions and Taiwan and South Korea, where minority presidents are the rule. Oversized cabinets and ministerial bureaucracies, low assertiveness of cabinets and the lack of legislative support are the consequences of these developments. In addition, high electoral volatility also complicates the planning and implementation of mid-to-long-term oriented policies.

However, high volatility rates are not always indicators for strongly fluctuating party preferences among the electorate or weakly institutionalized party systems. For example, high volatility rates in the last elections in Malaysia and Singapore do not indicate a crisis of both hegemonic party systems, but rather the reassurance of the established structures. In fact, the rising electoral volatility in both countries is a consequence of the ruling parties' ability to stop the erosion of their electoral support and to regain votes which in previous elections had gone to opposition parties. Of course, interference with opposition parties and an unfair electoral system contributed to this outcome, too; however, the fact that the government offered substantial policies in order to counter the oppositional challenges is also one factor that explains to some extent how authoritarian leaders in Singapore and Malaysia successfully neutralized deepening dissent in their societies.

In this regard, the low fragmentation of the party systems point to severe restrictions of party competition in both countries. Therefore and due to the cooptation of social organizations into government and party apparatuses, Singapore and Malaysia are ranked below South Korea, Taiwan, and India in terms of consensus-building. However, both score better than most other countries in the region because the political leadership in Singapore and Malaysia was able to prevent large-scale radicalization of ethno-religious conflicts through the establishment of inclusive inter-ethnic elite alliances and distributing economic gains among all ethnic groups. Most other governments in South and Southeast Asia are considerably less successful in building social consensus. Low-quality of conflict management in those countries is reflected in higher levels of political violence. In the wake of the events of 9/11, particularly Southeast Asia has achieved a dubious reputation as a "Second Front" in the war on terrorism and as a major hotspot of transnational Islamist terrorism.

Certainly the quality of political management of transformation is also affected by structural constraints for transformation that do not result from the current political leadership's actions and

can not be swiftly overcome by the current leadership such as extreme poverty, the lack of an educated labor force, natural disasters, or existing ethnic, religious and social conflicts, and the lack of traditions of civil society. The Bertelsmann Transformation Index takes these factors into account with the criterion of the degree of difficulty. The degree of structural constraints of successful transformation management is the strongest in Afghanistan, Pakistan and Nepal, followed by Myanmar. In Papua New Guinea, Bangladesh, Cambodia, Indonesia, India and the Philippines, low levels of socio-economic development, insufficient human resources and capital, a lack of strong traditions of civil society and the rule of law and weak bureaucratic capabilities also make reform politics difficult.

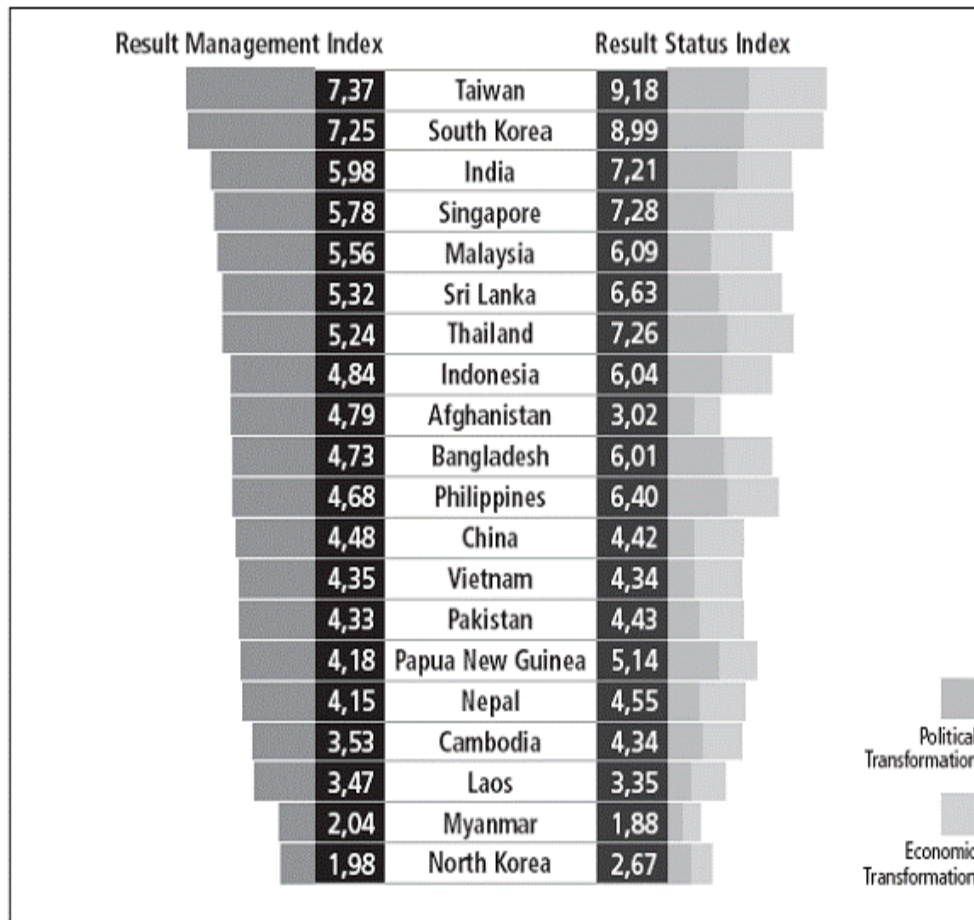
A closer inspection, however, reveals that the assumption that the lower the degree of difficulty, the higher the steering capabilities of political leaders and the level of transformation towards democracy and market economy, is only to some extent valid. Certainly, countries such as South Korea and Taiwan benefit from the absence of deep ethno-religious conflicts, high levels of socioeconomic modernization and a "strong state". On the other hand, severe conditions such as in Afghanistan constitute obstacles for economic and political reforms which are hard to overcome even with an ideal strategy of transformation. But many countries are located between these two extremes; their current status of transformation reflects only to some extent the degree of difficulties. A prime example is India: although the degree of difficulties is significantly higher in India than in Thailand, the Philippines, or Malaysia, the status of democracy in India is significantly higher than in those other countries.

Particularly the weak correlation between democracy status and degree of difficulties illustrates that politics matter. Only in three out of twenty countries (Nepal, Pakistan, and Afghanistan), the (low) status of democracy clearly reflects the (high) degree of difficulties, whereas most of the other countries do considerably better or worse in terms of democratic transformation than one would expect given the degree of difficulties. The correlation between degree of difficulties and market economic development is stronger. For example, the high values Singapore, South Korea and Taiwan receive in the Bertelsmann Transformation Index 2006 strongly support the assumption that transformation is the easier, the weaker the structural constraints for market economic development. However, more revealing are the "deviant cases". For example, North Korea and Myanmar are relatively worse off than one would expect, whereas Sri Lanka, Thailand, Pakistan and Nepal are 'overachievers' compared with the degree of difficulties for economic transformation.

Summary and Conclusion

The present report on the state of democratic and economic reforms in Asia and Oceania proves that the region-wide trend towards market economy continues; however, market economic transformation is more advanced in this region than democratic transformation. In fact, the third wave of democratization has come to a halt in this region. Based on the criteria of the *Bertelsmann Transformation Index 2006* the twenty nations in Asia and Oceania cluster into five groups:

Results of the Bertelsmann Transformation Index 2006 for Asia and Oceania



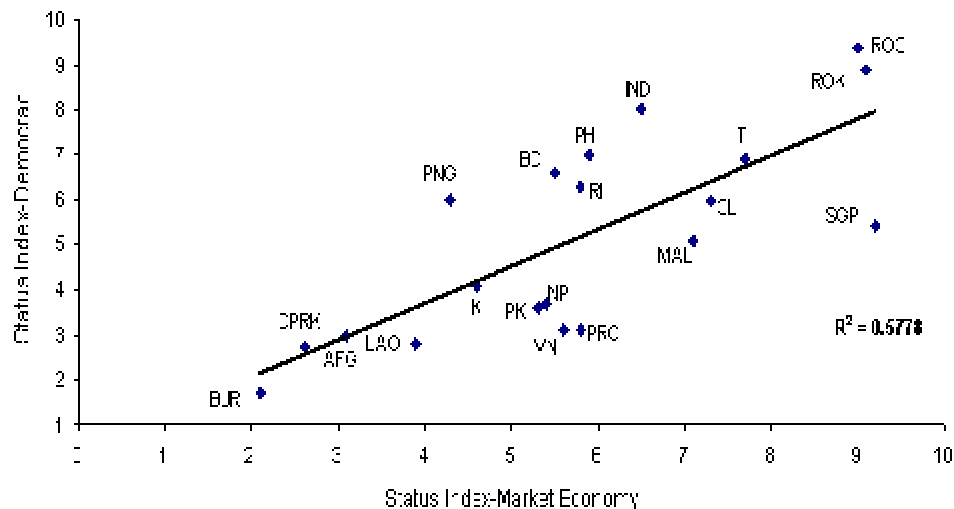
- Countries at an advanced stage of economic and democratic transformation whose political leadership by and large has demonstrated a good management performance (South Korea and Taiwan).
- Nations in which the transformation towards democracy and market economy lag behind the first group, either because of difficult conditions and/or because of shortcomings or failures of political management; the trend of development in both dimensions of transformation do not point in a single direction (Thailand, Sri Lanka, Bangladesh, India, Indonesia, and the Philippines).
- States on a high to very high level of socioeconomic development in which the transition to democracy is blocked: Singapore and Malaysia.
- Autocracies whose level of social and economic development has improved in the last three years and which are on the road to successful transformation from socialist plan to capitalist economy but whose political leadership attempts to prevent the emergence of democratic opposition and blocks political liberalization: China and Vietnam.
- The fifth group consists of political systems that must be classified either as very weak electoral democracies or as autocracies and market economies which are at best highly deficient or rudimentary: Afghanistan, Papua New Guinea, Cambodia, Laos, Myanmar and North Korea.

While the countries in this last group are the main countries of concern in Asia, the first group is the role model in Asia (and beyond) for successful economic and democratic transformation. As such, the countries of this group undermine the official position of the governments in Malaysia and Singapore that “more” democracy necessarily threatens economic development. On the other hand, Taiwan and South Korea (as well as many other countries in Asia and in other

regions in the world) may in fact learn from Singapore's experiences of fighting corruption, improving bureaucratic efficiency and the effective use of resources.

The experiences made in the democracies in Asia reveal a high degree of diversity in the dynamics and status of development towards liberal democracy. While democratization in South Korea and Taiwan is following the path towards liberal democracy, most other new democracies in the region seem not to transition into this direction, but rather they are stuck in transition or even show symptoms of autocratic regression. Simultaneously, there is a pronounced decoupling of democratic and economic transformation in many of the remaining autocracies in the region. The experiences of Singapore, Malaysia, Vietnam and China show that simultaneous democratization and introduction or deepening of market economy is *not* the dominant model in Asia. The following figure illustrates this trend towards a one-dimensional or sequential transformation in the region:

Correlation of Democracy Status with Status of Market Economy



The BTI assessments for Asia and Oceania indicate that the levels of democratic and market development are highly correlated only in seven of twenty countries. Five of those countries (Myanmar, North Korea, Laos, Cambodia, and Afghanistan) receive low to very low scores in both dimensions which indicates a generally low level of democracy and market economic transformation. On the other hand, Taiwan and South Korea receive high scores in both dimensions—an indication for the advanced status of market-based democracy in both countries.

In the remaining thirteen countries, both indices significantly differ. In Papua New Guinea, Bangladesh, Philippines, India and Indonesia the status index for democracy is higher than the status index of market economy. These five countries are examples of (defective) democracy in under- or less developed countries. On the other hand, there is a group of eight countries in which democratic transformation lags behind economic transformation: Thailand, Laos, Pakistan, Nepal, Vietnam, China, Malaysia and Singapore. While the group of democratic “overachiever” demonstrates that (defective) democracy is possible even with unfavorable socioeconomic preconditions, the second group of “democratic underachiever” illustrates the previously mentioned trend towards decoupling of both transformations. The experiences made in both groups support the main finding of the BTI 2006: Politics matter.

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